

State of Arizona
Senate
Forty-seventh Legislature
Second Regular Session
2006

SENATE BILL 1433

AN ACT

AMENDING SECTIONS 42-5061 AND 42-5159, ARIZONA REVISED STATUTES; RELATING TO
TRANSACTION PRIVILEGE AND USE TAX EXEMPTIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to
3 read:

4 42-5061. Retail classification: definitions

5 A. The retail classification is comprised of the business of selling
6 tangible personal property at retail. The tax base for the retail
7 classification is the gross proceeds of sales or gross income derived from
8 the business. The tax imposed on the retail classification does not apply to
9 the gross proceeds of sales or gross income from:

10 1. Professional or personal service occupations or businesses which
11 involve sales or transfers of tangible personal property only as
12 inconsequential elements.

13 2. Services rendered in addition to selling tangible personal property
14 at retail.

15 3. Sales of warranty or service contracts. The storage, use or
16 consumption of tangible personal property provided under the conditions of
17 such contracts is subject to tax under section 42-5156.

18 4. Sales of tangible personal property by any nonprofit organization
19 organized and operated exclusively for charitable purposes and recognized by
20 the United States internal revenue service under section 501(c)(3) of the
21 internal revenue code.

22 5. Sales to persons engaged in business classified under the
23 restaurant classification of articles used by human beings for food, drink or
24 condiment, whether simple, mixed or compounded.

25 6. Business activity which is properly included in any other business
26 classification which is taxable under article 1 of this chapter.

27 7. The sale of stocks and bonds.

28 8. Drugs and medical oxygen, including delivery hose, mask or tent,
29 regulator and tank, on the prescription of a member of the medical, dental or
30 veterinarian profession who is licensed by law to administer such substances.

31 9. Prosthetic appliances as defined in section 23-501 prescribed or
32 recommended by a health professional licensed pursuant to title 32, chapter
33 7, 8, 11, 13, 14, 15, 16, 17 or 29.

34 10. Insulin, insulin syringes and glucose test strips.

35 11. Prescription eyeglasses or contact lenses.

36 12. Hearing aids as defined in section 36-1901.

37 13. Durable medical equipment which has a centers for medicare and
38 medicaid services common procedure code, is designated reimbursable by
39 medicare, is prescribed by a person who is licensed under title 32, chapter
40 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
41 customarily used to serve a medical purpose, is generally not useful to a
42 person in the absence of illness or injury and is appropriate for use in the
43 home.

1 14. Sales to nonresidents of this state for use outside this state if
2 the vendor ships or delivers the tangible personal property out of this
3 state.

4 15. Food, as provided in and subject to the conditions of article 3 of
5 this chapter and section 42-5074.

6 16. Items purchased with United States department of agriculture food
7 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
8 958) or food instruments issued under section 17 of the child nutrition act
9 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
10 section 1786).

11 17. Textbooks by any bookstore that are required by any state
12 university or community college.

13 18. Food and drink to a person who is engaged in business which is
14 classified under the restaurant classification and which provides such food
15 and drink without monetary charge to its employees for their own consumption
16 on the premises during the employees' hours of employment.

17 19. Articles of food, drink or condiment and accessory tangible
18 personal property to a school district if such articles and accessory
19 tangible personal property are to be prepared and served to persons for
20 consumption on the premises of a public school within the district during
21 school hours.

22 20. Lottery tickets or shares pursuant to title 5, chapter 5,
23 article 1.

24 21. The sale of precious metal bullion and monetized bullion to the
25 ultimate consumer, but the sale of coins or other forms of money for
26 manufacture into jewelry or works of art is subject to the tax. For the
27 purposes of this paragraph:

28 (a) "Monetized bullion" means coins and other forms of money which are
29 manufactured from gold, silver or other metals and which have been or are
30 used as a medium of exchange in this or another state, the United States or a
31 foreign nation.

32 (b) "Precious metal bullion" means precious metal, including gold,
33 silver, platinum, rhodium and palladium, which has been smelted or refined so
34 that its value depends on its contents and not on its form.

35 22. Motor vehicle fuel and use fuel which are subject to a tax imposed
36 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
37 valid single trip use fuel tax permit issued under section 28-5739, sales of
38 aviation fuel which are subject to the tax imposed under section 28-8344 and
39 sales of jet fuel which are subject to the tax imposed under article 8 of
40 this chapter.

41 23. Tangible personal property sold to a person engaged in the business
42 of leasing or renting such property under the personal property rental
43 classification if such property is to be leased or rented by such person.

1 24. Tangible personal property sold in interstate or foreign commerce
2 if prohibited from being so taxed by the Constitution of the United States or
3 the constitution of this state.

4 25. Tangible personal property sold to:

5 (a) A qualifying hospital as defined in section 42-5001.

6 (b) A qualifying health care organization as defined in section
7 42-5001 if the tangible personal property is used by the organization solely
8 to provide health and medical related educational and charitable services.

9 (c) A qualifying health care organization as defined in section
10 42-5001 if the organization is dedicated to providing educational,
11 therapeutic, rehabilitative and family medical education training for blind,
12 visually impaired and multihandicapped children from the time of birth to age
13 twenty-one.

14 (d) A qualifying community health center as defined in section
15 42-5001.

16 (e) A nonprofit charitable organization that has qualified under
17 section 501(c)(3) of the internal revenue code and that regularly serves
18 meals to the needy and indigent on a continuing basis at no cost.

19 (f) For taxable periods beginning from and after June 30, 2001, a
20 nonprofit charitable organization that has qualified under section 501(c)(3)
21 of the internal revenue code and that provides residential apartment housing
22 for low income persons over sixty-two years of age in a facility that
23 qualifies for a federal housing subsidy, if the tangible personal property is
24 used by the organization solely to provide residential apartment housing for
25 low income persons over sixty-two years of age in a facility that qualifies
26 for a federal housing subsidy.

27 26. Magazines or other periodicals or other publications by this state
28 to encourage tourist travel.

29 27. Tangible personal property sold to a person that is subject to tax
30 under this article by reason of being engaged in business classified under
31 the prime contracting classification under section 42-5075, or to a
32 subcontractor working under the control of a prime contractor that is subject
33 to tax under article 1 of this chapter, if the property so sold is any of the
34 following:

35 (a) Incorporated or fabricated by the person into any real property,
36 structure, project, development or improvement as part of the business.

37 (b) Used in environmental response or remediation activities under
38 section 42-5075, subsection B, paragraph 6.

39 (c) Incorporated or fabricated by the person into any lake facility
40 development in a commercial enhancement reuse district under conditions
41 prescribed for the deduction allowed by section 42-5075, subsection B,
42 paragraph 8.

43 28. The sale of a motor vehicle to:

44 (a) A nonresident of this state if the purchaser's state of residence
45 does not allow a corresponding use tax exemption to the tax imposed by

1 article 1 of this chapter and if the nonresident has secured a special ninety
2 day nonresident registration permit for the vehicle as prescribed by sections
3 28-2154 and 28-2154.01.

4 (b) An enrolled member of an Indian tribe who resides on the Indian
5 reservation established for that tribe.

6 29. Tangible personal property purchased in this state by a nonprofit
7 charitable organization that has qualified under section 501(c)(3) of the
8 United States internal revenue code and that engages in and uses such
9 property exclusively in programs for mentally or physically handicapped
10 persons if the programs are exclusively for training, job placement,
11 rehabilitation or testing.

12 30. Sales of tangible personal property by a nonprofit organization
13 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
14 of the internal revenue code if the organization is associated with a major
15 league baseball team or a national touring professional golfing association
16 and no part of the organization's net earnings inures to the benefit of any
17 private shareholder or individual.

18 31. Sales of commodities, as defined by title 7 United States Code
19 section 2, that are consigned for resale in a warehouse in this state in or
20 from which the commodity is deliverable on a contract for future delivery
21 subject to the rules of a commodity market regulated by the United States
22 commodity futures trading commission.

23 32. Sales of tangible personal property by a nonprofit organization
24 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
25 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
26 sponsors or operates a rodeo featuring primarily farm and ranch animals and
27 no part of the organization's net earnings inures to the benefit of any
28 private shareholder or individual.

29 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
30 propagative material to persons who use those items to commercially produce
31 agricultural, horticultural, viticultural or floricultural crops in this
32 state.

33 34. Machinery, equipment, technology or related supplies that are only
34 useful to assist a person who is physically disabled as defined in section
35 46-191, has a developmental disability as defined in section 36-551 or has a
36 head injury as defined in section 41-3201 to be more independent and
37 functional.

38 35. Sales of tangible personal property that is shipped or delivered
39 directly to a destination outside the United States for use in that foreign
40 country.

41 36. Sales of natural gas or liquefied petroleum gas used to propel a
42 motor vehicle.

43 37. Paper machine clothing, such as forming fabrics and dryer felts,
44 sold to a paper manufacturer and directly used or consumed in paper
45 manufacturing.

1 38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
2 sold to a qualified environmental technology manufacturer, producer or
3 processor as defined in section 41-1514.02 and directly used or consumed in
4 the generation or provision of on-site power or energy solely for
5 environmental technology manufacturing, producing or processing or
6 environmental protection. This paragraph shall apply for fifteen full
7 consecutive calendar or fiscal years from the date the first paper
8 manufacturing machine is placed in service. In the case of an environmental
9 technology manufacturer, producer or processor who does not manufacture
10 paper, the time period shall begin with the date the first manufacturing,
11 processing or production equipment is placed in service.

12 39. Sales of liquid, solid or gaseous chemicals used in manufacturing,
13 processing, fabricating, mining, refining, metallurgical operations, research
14 and development and, beginning on January 1, 1999, printing, if using or
15 consuming the chemicals, alone or as part of an integrated system of
16 chemicals, involves direct contact with the materials from which the product
17 is produced for the purpose of causing or permitting a chemical or physical
18 change to occur in the materials as part of the production process. This
19 paragraph does not include chemicals that are used or consumed in activities
20 such as packaging, storage or transportation but does not affect any
21 deduction for such chemicals that is otherwise provided by this section. For
22 the purposes of this paragraph, "printing" means a commercial printing
23 operation and includes job printing, engraving, embossing, copying and
24 bookbinding.

25 40. Through December 31, 1994, personal property liquidation
26 transactions, conducted by a personal property liquidator. From and after
27 December 31, 1994, personal property liquidation transactions shall be
28 taxable under this section provided that nothing in this subsection shall be
29 construed to authorize the taxation of casual activities or transactions
30 under this chapter. For the purposes of this paragraph:

31 (a) "Personal property liquidation transaction" means a sale of
32 personal property made by a personal property liquidator acting solely on
33 behalf of the owner of the personal property sold at the dwelling of the
34 owner or upon the death of any owner, on behalf of the surviving spouse, if
35 any, any devisee or heir or the personal representative of the estate of the
36 deceased, if one has been appointed.

37 (b) "Personal property liquidator" means a person who is retained to
38 conduct a sale in a personal property liquidation transaction.

39 41. Sales of food, drink and condiment for consumption within the
40 premises of any prison, jail or other institution under the jurisdiction of
41 the state department of corrections, the department of public safety, the
42 department of juvenile corrections or a county sheriff.

43 42. A motor vehicle and any repair and replacement parts and tangible
44 personal property becoming a part of such motor vehicle sold to a motor

1 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
2 and who is engaged in the business of leasing or renting such property.

3 43. Livestock and poultry feed, salts, vitamins and other additives for
4 livestock or poultry consumption that are sold to persons who are engaged in
5 producing livestock, poultry, or livestock or poultry products or who are
6 engaged in feeding livestock or poultry commercially. For the purposes of
7 this paragraph, "poultry" includes ratites.

8 44. Sales of implants used as growth promotants and injectable
9 medicines, not already exempt under paragraph 8 of this subsection, for
10 livestock or poultry owned by or in possession of persons who are engaged in
11 producing livestock, poultry, or livestock or poultry products or who are
12 engaged in feeding livestock or poultry commercially. For the purposes of
13 this paragraph, "poultry" includes ratites.

14 45. Sales of motor vehicles at auction to nonresidents of this state
15 for use outside this state if the vehicles are shipped or delivered out of
16 this state, regardless of where title to the motor vehicles passes or its
17 free on board point.

18 46. Tangible personal property sold to a person engaged in business and
19 subject to tax under the transient lodging classification if the tangible
20 personal property is a personal hygiene item or articles used by human beings
21 for food, drink or condiment, except alcoholic beverages, which are furnished
22 without additional charge to and intended to be consumed by the transient
23 during the transient's occupancy.

24 47. Sales of alternative fuel, as defined in section 1-215, to a used
25 oil fuel burner who has received a permit to burn used oil or used oil fuel
26 under section 49-426 or 49-480.

27 48. Sales of materials that are purchased by or for publicly funded
28 libraries including school district libraries, charter school libraries,
29 community college libraries, state university libraries or federal, state,
30 county or municipal libraries for use by the public as follows:

31 (a) Printed or photographic materials, beginning August 7, 1985.

32 (b) Electronic or digital media materials, beginning July 17, 1994.

33 49. Tangible personal property sold to a commercial airline and
34 consisting of food, beverages and condiments and accessories used for serving
35 the food and beverages, if those items are to be provided without additional
36 charge to passengers for consumption in flight. For the purposes of this
37 paragraph, "commercial airline" means a person holding a federal certificate
38 of public convenience and necessity or foreign air carrier permit for air
39 transportation to transport persons, property or United States mail in
40 intrastate, interstate or foreign commerce.

41 50. Sales of alternative fuel vehicles if the vehicle was manufactured
42 as a diesel fuel vehicle and converted to operate on alternative fuel and
43 equipment that is installed in a conventional diesel fuel motor vehicle to
44 convert the vehicle to operate on an alternative fuel, as defined in section
45 1-215.

1 51. Sales of any spirituous, vinous or malt liquor by a person that is
2 licensed in this state as a wholesaler by the department of liquor licenses
3 and control pursuant to title 4, chapter 2, article 1.

4 52. Sales of tangible personal property to be incorporated or installed
5 as part of environmental response or remediation activities under section
6 42-5075, subsection B, paragraph 6.

7 53. Sales of tangible personal property by a nonprofit organization
8 that is exempt from taxation under section 501(c)(6) of the internal revenue
9 code if the organization produces, organizes or promotes cultural or civic
10 related festivals or events and no part of the organization's net earnings
11 inures to the benefit of any private shareholder or individual.

12 B. In addition to the deductions from the tax base prescribed by
13 subsection A of this section, the gross proceeds of sales or gross income
14 derived from sales of the following categories of tangible personal property
15 shall be deducted from the tax base:

16 1. Machinery, or equipment, used directly in manufacturing,
17 processing, fabricating, job printing, refining or metallurgical operations.
18 The terms "manufacturing", "processing", "fabricating", "job printing",
19 "refining" and "metallurgical" as used in this paragraph refer to and include
20 those operations commonly understood within their ordinary meaning.
21 "Metallurgical operations" includes leaching, milling, precipitating,
22 smelting and refining.

23 2. Mining machinery, or equipment, used directly in the process of
24 extracting ores or minerals from the earth for commercial purposes, including
25 equipment required to prepare the materials for extraction and handling,
26 loading or transporting such extracted material to the surface. "Mining"
27 includes underground, surface and open pit operations for extracting ores and
28 minerals.

29 3. Tangible personal property sold to persons engaged in business
30 classified under the telecommunications classification and consisting of
31 central office switching equipment, switchboards, private branch exchange
32 equipment, microwave radio equipment and carrier equipment including optical
33 fiber, coaxial cable and other transmission media which are components of
34 carrier systems.

35 4. Machinery, equipment or transmission lines used directly in
36 producing or transmitting electrical power, but not including distribution.
37 Transformers and control equipment used at transmission substation sites
38 constitute equipment used in producing or transmitting electrical power.

39 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
40 to be used as breeding or production stock, including sales of breedings or
41 ownership shares in such animals used for breeding or production.

42 6. Pipes or valves four inches in diameter or larger used to transport
43 oil, natural gas, artificial gas, water or coal slurry, including compressor
44 units, regulators, machinery and equipment, fittings, seals and any other
45 part that is used in operating the pipes or valves.

1 7. Aircraft, navigational and communication instruments and other
2 accessories and related equipment sold to:

3 (a) A person holding a federal certificate of public convenience and
4 necessity, a supplemental air carrier certificate under federal aviation
5 regulations (14 Code of Federal Regulations part 121) or a foreign air
6 carrier permit for air transportation for use as or in conjunction with or
7 becoming a part of aircraft to be used to transport persons, property or
8 United States mail in intrastate, interstate or foreign commerce.

9 (b) Any foreign government for use by such government outside of this
10 state.

11 (c) Persons who are not residents of this state and who will not use
12 such property in this state other than in removing such property from this
13 state. This subdivision also applies to corporations that are not
14 incorporated in this state, regardless of maintaining a place of business in
15 this state, if the principal corporate office is located outside this state
16 and the property will not be used in this state other than in removing the
17 property from this state.

18 8. Machinery, tools, equipment and related supplies used or consumed
19 directly in repairing, remodeling or maintaining aircraft, aircraft engines
20 or aircraft component parts by or on behalf of a certificated or licensed
21 carrier of persons or property.

22 9. Railroad rolling stock, rails, ties and signal control equipment
23 used directly to transport persons or property.

24 10. Machinery or equipment used directly to drill for oil or gas or
25 used directly in the process of extracting oil or gas from the earth for
26 commercial purposes.

27 11. Buses or other urban mass transit vehicles which are used directly
28 to transport persons or property for hire or pursuant to a governmentally
29 adopted and controlled urban mass transportation program and which are sold
30 to bus companies holding a federal certificate of convenience and necessity
31 or operated by any city, town or other governmental entity or by any person
32 contracting with such governmental entity as part of a governmentally adopted
33 and controlled program to provide urban mass transportation.

34 12. Groundwater measuring devices required under section 45-604.

35 13. New machinery and equipment consisting of tractors, tractor-drawn
36 implements, self-powered implements, machinery and equipment necessary for
37 extracting milk, and machinery and equipment necessary for cooling milk and
38 livestock, and drip irrigation lines not already exempt under paragraph 6 of
39 this subsection and that are used for commercial production of agricultural,
40 horticultural, viticultural and floricultural crops and products in this
41 state. For the purposes of this paragraph:

42 (a) "New machinery and equipment" means machinery and equipment which
43 have never been sold at retail except pursuant to leases or rentals which do
44 not total two years or more.

1 (b) "Self-powered implements" includes machinery and equipment that
2 are electric-powered.

3 14. Machinery or equipment used in research and development. For the
4 purposes of this paragraph, "research and development" means basic and
5 applied research in the sciences and engineering, and designing, developing
6 or testing prototypes, processes or new products, including research and
7 development of computer software that is embedded in or an integral part of
8 the prototype or new product or that is required for machinery or equipment
9 otherwise exempt under this section to function effectively. Research and
10 development do not include manufacturing quality control, routine consumer
11 product testing, market research, sales promotion, sales service, research in
12 social sciences or psychology, computer software research that is not
13 included in the definition of research and development, or other
14 nontechnological activities or technical services.

15 15. Machinery and equipment that are purchased by or on behalf of the
16 owners of a soundstage complex and primarily used for motion picture,
17 multimedia or interactive video production in the complex. This paragraph
18 applies only if the initial construction of the soundstage complex begins
19 after June 30, 1996 and before January 1, 2002 and the machinery and
20 equipment are purchased before the expiration of five years after the start
21 of initial construction. For the purposes of this paragraph:

22 (a) "Motion picture, multimedia or interactive video production"
23 includes products for theatrical and television release, educational
24 presentations, electronic retailing, documentaries, music videos, industrial
25 films, CD-ROM, video game production, commercial advertising and television
26 episode production and other genres that are introduced through developing
27 technology.

28 (b) "Soundstage complex" means a facility of multiple stages including
29 production offices, construction shops and related areas, prop and costume
30 shops, storage areas, parking for production vehicles and areas that are
31 leased to businesses that complement the production needs and orientation of
32 the overall facility.

33 16. Tangible personal property that is used by either of the following
34 to receive, store, convert, produce, generate, decode, encode, control or
35 transmit telecommunications information:

36 (a) Any direct broadcast satellite television or data transmission
37 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
38 100.

39 (b) Any satellite television or data transmission facility, if both of
40 the following conditions are met:

41 (i) Over two-thirds of the transmissions, measured in megabytes,
42 transmitted by the facility during the test period were transmitted to or on
43 behalf of one or more direct broadcast satellite television or data
44 transmission services that operate pursuant to 47 Code of Federal Regulations
45 parts 25 and 100.

1 (ii) Over two-thirds of the transmissions, measured in megabytes,
2 transmitted by or on behalf of those direct broadcast television or data
3 transmission services during the test period were transmitted by the facility
4 to or on behalf of those services.

5 For the purposes of subdivision (b) of this paragraph, "test period" means
6 the three hundred sixty-five day period beginning on the later of the date on
7 which the tangible personal property is purchased or the date on which the
8 direct broadcast satellite television or data transmission service first
9 transmits information to its customers.

10 17. Clean rooms that are used for manufacturing, processing,
11 fabrication or research and development, as defined in paragraph 14 of this
12 subsection, of semiconductor products. For the purposes of this paragraph,
13 "clean room" means all property that comprises or creates an environment
14 where humidity, temperature, particulate matter and contamination are
15 precisely controlled within specified parameters, without regard to whether
16 the property is actually contained within that environment or whether any of
17 the property is affixed to or incorporated into real property. Clean room:

18 (a) Includes the integrated systems, fixtures, piping, movable
19 partitions, lighting and all property that is necessary or adapted to reduce
20 contamination or to control airflow, temperature, humidity, chemical purity
21 or other environmental conditions or manufacturing tolerances, as well as the
22 production machinery and equipment operating in conjunction with the clean
23 room environment.

24 (b) Does not include the building or other permanent, nonremovable
25 component of the building that houses the clean room environment.

26 18. Machinery and equipment used directly in the feeding of poultry,
27 the environmental control of housing for poultry, the movement of eggs within
28 a production and packaging facility or the sorting or cooling of eggs. This
29 exemption does not apply to vehicles used for transporting eggs.

30 19. Machinery or equipment, including related structural components,
31 that is employed in connection with manufacturing, processing, fabricating,
32 job printing, refining, mining, natural gas pipelines, metallurgical
33 operations, telecommunications, producing or transmitting electricity or
34 research and development and that is used directly to meet or exceed rules or
35 regulations adopted by the federal energy regulatory commission, the United
36 States environmental protection agency, the United States nuclear regulatory
37 commission, the Arizona department of environmental quality or a political
38 subdivision of this state to prevent, monitor, control or reduce land, water
39 or air pollution.

40 20. Machinery and equipment that are sold to a person engaged in the
41 commercial production of livestock, livestock products or agricultural,
42 horticultural, viticultural or floricultural crops or products in this state
43 and that are used directly and primarily to prevent, monitor, control or
44 reduce air, water or land pollution.

1 21. Machinery or equipment that enables a television station to
2 originate and broadcast or to receive and broadcast digital television
3 signals and that was purchased to facilitate compliance with the
4 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
5 Code section 336) and the federal communications commission order issued
6 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
7 not exempt any of the following:

8 (a) Repair or replacement parts purchased for the machinery or
9 equipment described in this paragraph.

10 (b) Machinery or equipment purchased to replace machinery or equipment
11 for which an exemption was previously claimed and taken under this paragraph.

12 (c) Any machinery or equipment purchased after the television station
13 has ceased analog broadcasting, or purchased after November 1, 2009,
14 whichever occurs first.

15 22. Qualifying equipment that is purchased from and after June 30, 2004
16 through June 30, 2014 by a qualified business under section 41-1516 for
17 harvesting or the initial processing of qualifying forest products removed
18 from qualifying projects as defined in section 41-1516. To qualify for this
19 deduction, the qualified business at the time of purchase must present its
20 certification approved by the department.

21 23. Machinery, equipment and other tangible personal property used
22 directly in motion picture production by a motion picture production company.
23 To qualify for this deduction, at the time of purchase, the motion picture
24 production company must present to the retailer its certificate that is
25 issued pursuant to section 42-5009, subsection H and that establishes its
26 qualification for the deduction.

27 C. The deductions provided by subsection B of this section do not
28 include sales of:

29 1. Expendable materials. For the purposes of this paragraph,
30 expendable materials do not include any of the categories of tangible
31 personal property specified in subsection B of this section regardless of the
32 cost or useful life of that property.

33 2. Janitorial equipment and hand tools.

34 3. Office equipment, furniture and supplies.

35 4. Tangible personal property used in selling or distributing
36 activities, other than the telecommunications transmissions described in
37 subsection B, paragraph 16 of this section.

38 5. Motor vehicles required to be licensed by this state, except buses
39 or other urban mass transit vehicles specifically exempted pursuant to
40 subsection B, paragraph 11 of this section, without regard to the use of such
41 motor vehicles.

42 6. Shops, buildings, docks, depots and all other materials of whatever
43 kind or character not specifically included as exempt.

44 7. Motors and pumps used in drip irrigation systems.

1 D. In addition to the deductions from the tax base prescribed by
2 subsection A of this section, there shall be deducted from the tax base the
3 gross proceeds of sales or gross income derived from sales of machinery,
4 equipment, materials and other tangible personal property used directly and
5 predominantly to construct a qualified environmental technology
6 manufacturing, producing or processing facility as described in section
7 41-1514.02. This subsection applies for ten full consecutive calendar or
8 fiscal years after the start of initial construction.

9 E. In computing the tax base, gross proceeds of sales or gross income
10 from retail sales of heavy trucks and trailers does not include any amount
11 attributable to federal excise taxes imposed by 26 United States Code section
12 4051.

13 F. In computing the tax base, gross proceeds of sales or gross income
14 from the sale of use fuel, as defined in section 28-5601, does not include
15 any amount attributable to federal excise taxes imposed by 26 United States
16 Code section 4091.

17 G. If a person is engaged in an occupation or business to which
18 subsection A of this section applies, the person's books shall be kept so as
19 to show separately the gross proceeds of sales of tangible personal property
20 and the gross income from sales of services, and if not so kept the tax shall
21 be imposed on the total of the person's gross proceeds of sales of tangible
22 personal property and gross income from services.

23 H. If a person is engaged in the business of selling tangible personal
24 property at both wholesale and retail, the tax under this section applies
25 only to the gross proceeds of the sales made other than at wholesale if the
26 person's books are kept so as to show separately the gross proceeds of sales
27 of each class, and if the books are not so kept, the tax under this section
28 applies to the gross proceeds of every sale so made.

29 I. A person who engages in manufacturing, baling, crating, boxing,
30 barreling, canning, bottling, sacking, preserving, processing or otherwise
31 preparing for sale or commercial use any livestock, agricultural or
32 horticultural product or any other product, article, substance or commodity
33 and who sells the product of such business at retail in this state is deemed,
34 as to such sales, to be engaged in business classified under the retail
35 classification. This subsection does not apply to businesses classified
36 under the:

- 37 1. Transporting classification.
- 38 2. Utilities classification.
- 39 3. Telecommunications classification.
- 40 4. Pipeline classification.
- 41 5. Private car line classification.
- 42 6. Publication classification.
- 43 7. Job printing classification.
- 44 8. Prime contracting classification.
- 45 9. Owner builder sales classification.

1 10. Restaurant classification.

2 J. The gross proceeds of sales or gross income derived from the
3 following shall be deducted from the tax base for the retail classification:

4 1. Sales made directly to the United States government or its
5 departments or agencies by a manufacturer, modifier, assembler or repairer.

6 2. Sales made directly to a manufacturer, modifier, assembler or
7 repairer if such sales are of any ingredient or component part of products
8 sold directly to the United States government or its departments or agencies
9 by the manufacturer, modifier, assembler or repairer.

10 3. Overhead materials or other tangible personal property that is used
11 in performing a contract between the United States government and a
12 manufacturer, modifier, assembler or repairer, including property used in
13 performing a subcontract with a government contractor who is a manufacturer,
14 modifier, assembler or repairer, to which title passes to the government
15 under the terms of the contract or subcontract.

16 4. Sales of overhead materials or other tangible personal property to
17 a manufacturer, modifier, assembler or repairer if the gross proceeds of
18 sales or gross income derived from the property by the manufacturer,
19 modifier, assembler or repairer will be exempt under paragraph 3 of this
20 subsection.

21 K. There shall be deducted from the tax base fifty per cent of the
22 gross proceeds or gross income from any sale of tangible personal property
23 made directly to the United States government or its departments or agencies,
24 which is not deducted under subsection J of this section.

25 L. The department shall require every person claiming a deduction
26 provided by subsection J or K of this section to file on forms prescribed by
27 the department at such times as the department directs a sworn statement
28 disclosing the name of the purchaser and the exact amount of sales on which
29 the exclusion or deduction is claimed.

30 M. In computing the tax base, gross proceeds of sales or gross income
31 does not include:

32 1. A manufacturer's cash rebate on the sales price of a motor vehicle
33 if the buyer assigns the buyer's right in the rebate to the retailer.

34 2. The waste tire disposal fee imposed pursuant to section 44-1302.

35 N. There shall be deducted from the tax base the amount received from
36 sales of solar energy devices, but the deduction shall not exceed five
37 thousand dollars for each solar energy device. Before deducting any amount
38 under this subsection, the retailer shall register with the department as a
39 solar energy retailer. By registering, the retailer acknowledges that it
40 will make its books and records relating to sales of solar energy devices
41 available to the department for examination.

42 O. In computing the tax base in the case of the sale or transfer of
43 wireless telecommunications equipment as an inducement to a customer to enter
44 into or continue a contract for telecommunications services that are taxable
45 under section 42-5064, gross proceeds of sales or gross income does not

1 include any sales commissions or other compensation received by the retailer
2 as a result of the customer entering into or continuing a contract for the
3 telecommunications services.

4 P. For the purposes of this section, a sale of wireless
5 telecommunications equipment to a person who holds the equipment for sale or
6 transfer to a customer as an inducement to enter into or continue a contract
7 for telecommunications services that are taxable under section 42-5064 is
8 considered to be a sale for resale in the regular course of business.

9 Q. Retail sales of prepaid calling cards or prepaid authorization
10 numbers for telecommunications services, including sales of reauthorization
11 of a prepaid card or authorization number, are subject to tax under this
12 section.

13 R. For the purposes of this section, the diversion of gas from a
14 pipeline by a person engaged in the business of:

15 1. Operating a natural or artificial gas pipeline, for the sole
16 purpose of fueling compressor equipment to pressurize the pipeline, is not a
17 sale of the gas to the operator of the pipeline.

18 2. CONVERTING NATURAL GAS INTO LIQUEFIED NATURAL GAS, FOR THE SOLE
19 PURPOSE OF FUELING COMPRESSOR EQUIPMENT USED IN THE CONVERSION PROCESS, IS
20 NOT A SALE OF GAS TO THE OPERATOR OF THE COMPRESSOR EQUIPMENT.

21 S. If a seller is entitled to a deduction pursuant to subsection B,
22 paragraph 16, subdivision (b) of this section, the department may require the
23 purchaser to establish that the requirements of subsection B, paragraph 16,
24 subdivision (b) of this section have been satisfied. If the purchaser cannot
25 establish that the requirements of subsection B, paragraph 16, subdivision
26 (b) of this section have been satisfied, the purchaser is liable in an amount
27 equal to any tax, penalty and interest which the seller would have been
28 required to pay under article 1 of this chapter if the seller had not made a
29 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
30 section. Payment of the amount under this subsection exempts the purchaser
31 from liability for any tax imposed under article 4 of this chapter and
32 related to the tangible personal property purchased. The amount shall be
33 treated as transaction privilege tax to the purchaser and as tax revenues
34 collected from the seller to designate the distribution base pursuant to
35 section 42-5029.

36 T. For the purposes of section 42-5032.01, the department shall
37 separately account for revenues collected under the retail classification
38 from businesses selling tangible personal property at retail:

39 1. On the premises of a multipurpose facility that is owned, leased or
40 operated by the tourism and sports authority pursuant to title 5, chapter 8.

41 2. At professional football contests that are held in a stadium
42 located on the campus of an institution under the jurisdiction of the Arizona
43 board of regents.

44 U. In computing the tax base for the sale of a motor vehicle to a
45 nonresident of this state, if the purchaser's state of residence allows a

1 corresponding use tax exemption to the tax imposed by article 1 of this
2 chapter and the rate of the tax in the purchaser's state of residence is
3 lower than the rate prescribed in article 1 of this chapter, and the
4 nonresident has secured a special ninety day nonresident registration permit
5 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
6 be deducted from the tax base a portion of the gross proceeds or gross income
7 from the sale so that the amount of transaction privilege tax that is paid in
8 this state is equal to the excise tax that is imposed by the purchaser's
9 state of residence on the nonexempt sale or use of the motor vehicle.

10 V. For the purposes of this section:

11 1. "Aircraft" includes:

12 (a) An airplane flight simulator that is approved by the federal
13 aviation administration for use as a phase II or higher flight simulator
14 under appendix H, 14 Code of Federal Regulations part 121.

15 (b) Tangible personal property that is permanently affixed or attached
16 as a component part of an aircraft that is owned or operated by a
17 certificated or licensed carrier of persons or property.

18 2. "Other accessories and related equipment" includes aircraft
19 accessories and equipment such as ground service equipment that physically
20 contact aircraft at some point during the overall carrier operation.

21 3. "Selling at retail" means a sale for any purpose other than for
22 resale in the regular course of business in the form of tangible personal
23 property, but transfer of possession, lease and rental as used in the
24 definition of sale mean only such transactions as are found on investigation
25 to be in lieu of sales as defined without the words lease or rental.

26 W. For the purposes of subsection J of this section:

27 1. "Assembler" means a person who unites or combines products, wares
28 or articles of manufacture so as to produce a change in form or substance
29 without changing or altering the component parts.

30 2. "Manufacturer" means a person who is principally engaged in the
31 fabrication, production or manufacture of products, wares or articles for use
32 from raw or prepared materials, imparting to those materials new forms,
33 qualities, properties and combinations.

34 3. "Modifier" means a person who reworks, changes or adds to products,
35 wares or articles of manufacture.

36 4. "Overhead materials" means tangible personal property, the gross
37 proceeds of sales or gross income derived from which would otherwise be
38 included in the retail classification, and which are used or consumed in the
39 performance of a contract, the cost of which is charged to an overhead
40 expense account and allocated to various contracts based upon generally
41 accepted accounting principles and consistent with government contract
42 accounting standards.

43 5. "Repairer" means a person who restores or renews products, wares or
44 articles of manufacture.

1 6. "Subcontract" means an agreement between a contractor and any
2 person who is not an employee of the contractor for furnishing of supplies or
3 services that, in whole or in part, are necessary to the performance of one
4 or more government contracts, or under which any portion of the contractor's
5 obligation under one or more government contracts is performed, undertaken or
6 assumed and that includes provisions causing title to overhead materials or
7 other tangible personal property used in the performance of the subcontract
8 to pass to the government or that includes provisions incorporating such
9 title passing clauses in a government contract into the subcontract.

10 Sec. 2. Section 42-5159, Arizona Revised Statutes, is amended to read:
11 42-5159. Exemptions

12 A. The tax levied by this article does not apply to the storage, use
13 or consumption in this state of the following described tangible personal
14 property:

15 1. Tangible personal property sold in this state, the gross receipts
16 from the sale of which are included in the measure of the tax imposed by
17 articles 1 and 2 of this chapter.

18 2. Tangible personal property the sale or use of which has already
19 been subjected to an excise tax at a rate equal to or exceeding the tax
20 imposed by this article under the laws of another state of the United States.
21 If the excise tax imposed by the other state is at a rate less than the tax
22 imposed by this article, the tax imposed by this article is reduced by the
23 amount of the tax already imposed by the other state.

24 3. Tangible personal property, the storage, use or consumption of
25 which the constitution or laws of the United States prohibit this state from
26 taxing or to the extent that the rate or imposition of tax is
27 unconstitutional under the laws of the United States.

28 4. Tangible personal property which directly enters into and becomes
29 an ingredient or component part of any manufactured, fabricated or processed
30 article, substance or commodity for sale in the regular course of business.

31 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
32 which in this state is subject to the tax imposed under title 28, chapter 16,
33 article 1, use fuel which is sold to or used by a person holding a valid
34 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
35 the sales, distribution or use of which in this state is subject to the tax
36 imposed under section 28-8344, and jet fuel, the sales, distribution or use
37 of which in this state is subject to the tax imposed under article 8 of this
38 chapter.

39 6. Tangible personal property brought into this state by an individual
40 who was a nonresident at the time the property was purchased for storage, use
41 or consumption by the individual if the first actual use or consumption of
42 the property was outside this state, unless the property is used in
43 conducting a business in this state.

44 7. Purchases of implants used as growth promotants and injectable
45 medicines, not already exempt under paragraph 16 of this subsection, for

1 livestock and poultry owned by, or in possession of, persons who are engaged
2 in producing livestock, poultry, or livestock or poultry products, or who are
3 engaged in feeding livestock or poultry commercially. For the purposes of
4 this paragraph, "poultry" includes ratites.

5 8. Livestock, poultry, supplies, feed, salts, vitamins and other
6 additives for use or consumption in the businesses of farming, ranching and
7 feeding livestock or poultry, not including fertilizers, herbicides and
8 insecticides. For the purposes of this paragraph, "poultry" includes
9 ratites.

10 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
11 material for use in commercially producing agricultural, horticultural,
12 viticultural or floricultural crops in this state.

13 10. Tangible personal property not exceeding two hundred dollars in any
14 one month purchased by an individual at retail outside the continental limits
15 of the United States for the individual's own personal use and enjoyment.

16 11. Advertising supplements which are intended for sale with newspapers
17 published in this state and which have already been subjected to an excise
18 tax under the laws of another state in the United States which equals or
19 exceeds the tax imposed by this article.

20 12. Materials that are purchased by or for publicly funded libraries
21 including school district libraries, charter school libraries, community
22 college libraries, state university libraries or federal, state, county or
23 municipal libraries for use by the public as follows:

24 (a) Printed or photographic materials, beginning August 7, 1985.

25 (b) Electronic or digital media materials, beginning July 17, 1994.

26 13. Tangible personal property purchased by:

27 (a) A hospital organized and operated exclusively for charitable
28 purposes, no part of the net earnings of which inures to the benefit of any
29 private shareholder or individual.

30 (b) A hospital operated by this state or a political subdivision of
31 this state.

32 (c) A licensed nursing care institution or a licensed residential care
33 institution or a residential care facility operated in conjunction with a
34 licensed nursing care institution or a licensed kidney dialysis center, which
35 provides medical services, nursing services or health related services and is
36 not used or held for profit.

37 (d) A qualifying health care organization, as defined in section
38 42-5001, if the tangible personal property is used by the organization solely
39 to provide health and medical related educational and charitable services.

40 (e) A qualifying health care organization as defined in section
41 42-5001 if the organization is dedicated to providing educational,
42 therapeutic, rehabilitative and family medical education training for blind,
43 visually impaired and multihandicapped children from the time of birth to age
44 twenty-one.

1 (f) A nonprofit charitable organization that has qualified under
2 section 501(c)(3) of the United States internal revenue code and that engages
3 in and uses such property exclusively in programs for mentally or physically
4 handicapped persons if the programs are exclusively for training, job
5 placement, rehabilitation or testing.

6 (g) A person that is subject to tax under article 1 of this chapter by
7 reason of being engaged in business classified under the prime contracting
8 classification under section 42-5075, or a subcontractor working under the
9 control of a prime contractor, if the tangible personal property is any of
10 the following:

11 (i) Incorporated or fabricated by the contractor into a structure,
12 project, development or improvement in fulfillment of a contract.

13 (ii) Used in environmental response or remediation activities under
14 section 42-5075, subsection B, paragraph 6.

15 (iii) Incorporated or fabricated by the person into any lake facility
16 development in a commercial enhancement reuse district under conditions
17 prescribed for the deduction allowed by section 42-5075, subsection B,
18 paragraph 8.

19 (h) A nonprofit charitable organization that has qualified under
20 section 501(c)(3) of the internal revenue code if the property is purchased
21 from the parent or an affiliate organization that is located outside this
22 state.

23 (i) A qualifying community health center as defined in section
24 42-5001.

25 (j) A nonprofit charitable organization that has qualified under
26 section 501(c)(3) of the internal revenue code and that regularly serves
27 meals to the needy and indigent on a continuing basis at no cost.

28 (k) A person engaged in business under the transient lodging
29 classification if the property is a personal hygiene item or articles used by
30 human beings for food, drink or condiment, except alcoholic beverages, which
31 are furnished without additional charge to and intended to be consumed by the
32 transient during the transient's occupancy.

33 (l) For taxable periods beginning from and after June 30, 2001, a
34 nonprofit charitable organization that has qualified under section 501(c)(3)
35 of the internal revenue code and that provides residential apartment housing
36 for low income persons over sixty-two years of age in a facility that
37 qualifies for a federal housing subsidy, if the tangible personal property is
38 used by the organization solely to provide residential apartment housing for
39 low income persons over sixty-two years of age in a facility that qualifies
40 for a federal housing subsidy.

41 14. Commodities, as defined by title 7 United States Code section 2,
42 that are consigned for resale in a warehouse in this state in or from which
43 the commodity is deliverable on a contract for future delivery subject to the
44 rules of a commodity market regulated by the United States commodity futures
45 trading commission.

1 15. Tangible personal property sold by:

2 (a) Any nonprofit organization organized and operated exclusively for
3 charitable purposes and recognized by the United States internal revenue
4 service under section 501(c)(3) of the internal revenue code.

5 (b) A nonprofit organization that is exempt from taxation under
6 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
7 organization is associated with a major league baseball team or a national
8 touring professional golfing association and no part of the organization's
9 net earnings inures to the benefit of any private shareholder or individual.

10 (c) A nonprofit organization that is exempt from taxation under
11 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
12 internal revenue code if the organization sponsors or operates a rodeo
13 featuring primarily farm and ranch animals and no part of the organization's
14 net earnings inures to the benefit of any private shareholder or individual.

15 16. Drugs and medical oxygen, including delivery hose, mask or tent,
16 regulator and tank, on the prescription of a member of the medical, dental or
17 veterinarian profession who is licensed by law to administer such substances.

18 17. Prosthetic appliances, as defined in section 23-501, prescribed or
19 recommended by a person who is licensed, registered or otherwise
20 professionally credentialed as a physician, dentist, podiatrist,
21 chiropractor, naturopath, homeopath, nurse or optometrist.

22 18. Prescription eyeglasses and contact lenses.

23 19. Insulin, insulin syringes and glucose test strips.

24 20. Hearing aids as defined in section 36-1901.

25 21. Durable medical equipment which has a centers for medicare and
26 medicaid services common procedure code, is designated reimbursable by
27 medicare, is prescribed by a person who is licensed under title 32, chapter
28 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
29 used to serve a medical purpose, is generally not useful to a person in the
30 absence of illness or injury and is appropriate for use in the home.

31 22. Food, as provided in and subject to the conditions of article 3 of
32 this chapter and section 42-5074.

33 23. Items purchased with United States department of agriculture food
34 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
35 958) or food instruments issued under section 17 of the child nutrition act
36 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
37 section 1786).

38 24. Food and drink provided without monetary charge by a taxpayer which
39 is subject to section 42-5074 to its employees for their own consumption on
40 the premises during the employees' hours of employment.

41 25. Tangible personal property that is used or consumed in a business
42 subject to section 42-5074 for human food, drink or condiment, whether
43 simple, mixed or compounded.

1 26. Food, drink or condiment and accessory tangible personal property
2 if they are to be prepared and served to persons for consumption on the
3 premises of a public school in a school district during school hours.

4 27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,
5 article 1.

6 28. Textbooks, sold by a bookstore, that are required by any state
7 university or community college.

8 29. Magazines, other periodicals or other publications produced by this
9 state to encourage tourist travel.

10 30. Paper machine clothing, such as forming fabrics and dryer felts,
11 purchased by a paper manufacturer and directly used or consumed in paper
12 manufacturing.

13 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
14 purchased by a qualified environmental technology manufacturer, producer or
15 processor as defined in section 41-1514.02 and directly used or consumed in
16 the generation or provision of on-site power or energy solely for
17 environmental technology manufacturing, producing or processing or
18 environmental protection. This paragraph shall apply for fifteen full
19 consecutive calendar or fiscal years from the date the first paper
20 manufacturing machine is placed in service. In the case of an environmental
21 technology manufacturer, producer or processor who does not manufacture
22 paper, the time period shall begin with the date the first manufacturing,
23 processing or production equipment is placed in service.

24 32. Motor vehicles that are removed from inventory by a motor vehicle
25 dealer as defined in section 28-4301 and that are provided to:

26 (a) Charitable or educational institutions that are exempt from
27 taxation under section 501(c)(3) of the internal revenue code.

28 (b) Public educational institutions.

29 (c) State universities or affiliated organizations of a state
30 university if no part of the organization's net earnings inures to the
31 benefit of any private shareholder or individual.

32 33. Natural gas or liquefied petroleum gas used to propel a motor
33 vehicle.

34 34. Machinery, equipment, technology or related supplies that are only
35 useful to assist a person who is physically disabled as defined in section
36 46-191, has a developmental disability as defined in section 36-551 or has a
37 head injury as defined in section 41-3201 to be more independent and
38 functional.

39 35. Liquid, solid or gaseous chemicals used in manufacturing,
40 processing, fabricating, mining, refining, metallurgical operations, research
41 and development and, beginning on January 1, 1999, printing, if using or
42 consuming the chemicals, alone or as part of an integrated system of
43 chemicals, involves direct contact with the materials from which the product
44 is produced for the purpose of causing or permitting a chemical or physical
45 change to occur in the materials as part of the production process. This

1 paragraph does not include chemicals that are used or consumed in activities
2 such as packaging, storage or transportation but does not affect any
3 exemption for such chemicals that is otherwise provided by this section. For
4 the purposes of this paragraph, "printing" means a commercial printing
5 operation and includes job printing, engraving, embossing, copying and
6 bookbinding.

7 36. Food, drink and condiment purchased for consumption within the
8 premises of any prison, jail or other institution under the jurisdiction of
9 the state department of corrections, the department of public safety, the
10 department of juvenile corrections or a county sheriff.

11 37. A motor vehicle and any repair and replacement parts and tangible
12 personal property becoming a part of such motor vehicle sold to a motor
13 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
14 and who is engaged in the business of leasing or renting such property.

15 38. Tangible personal property which is or directly enters into and
16 becomes an ingredient or component part of cards used as prescription plan
17 identification cards.

18 39. Overhead materials or other tangible personal property that is used
19 in performing a contract between the United States government and a
20 manufacturer, modifier, assembler or repairer, including property used in
21 performing a subcontract with a government contractor who is a manufacturer,
22 modifier, assembler or repairer, to which title passes to the government
23 under the terms of the contract or subcontract. For the purposes of this
24 paragraph:

25 (a) "Overhead materials" means tangible personal property, the gross
26 proceeds of sales or gross income derived from which would otherwise be
27 included in the retail classification, and which are used or consumed in the
28 performance of a contract, the cost of which is charged to an overhead
29 expense account and allocated to various contracts based upon generally
30 accepted accounting principles and consistent with government contract
31 accounting standards.

32 (b) "Subcontract" means an agreement between a contractor and any
33 person who is not an employee of the contractor for furnishing of supplies or
34 services that, in whole or in part, are necessary to the performance of one
35 or more government contracts, or under which any portion of the contractor's
36 obligation under one or more government contracts is performed, undertaken or
37 assumed, and that includes provisions causing title to overhead materials or
38 other tangible personal property used in the performance of the subcontract
39 to pass to the government or that includes provisions incorporating such
40 title passing clauses in a government contract into the subcontract.

41 40. Through December 31, 1994, tangible personal property sold pursuant
42 to a personal property liquidation transaction, as defined in section
43 42-5061. From and after December 31, 1994, tangible personal property sold
44 pursuant to a personal property liquidation transaction, as defined in
45 section 42-5061, if the gross proceeds of the sales were included in the

1 measure of the tax imposed by article 1 of this chapter or if the personal
2 property liquidation was a casual activity or transaction.

3 41. Wireless telecommunications equipment that is held for sale or
4 transfer to a customer as an inducement to enter into or continue a contract
5 for telecommunications services that are taxable under section 42-5064.

6 42. Alternative fuel, as defined in section 1-215, purchased by a used
7 oil fuel burner who has received a permit to burn used oil or used oil fuel
8 under section 49-426 or 49-480.

9 43. Tangible personal property purchased by a commercial airline and
10 consisting of food, beverages and condiments and accessories used for serving
11 the food and beverages, if those items are to be provided without additional
12 charge to passengers for consumption in flight. For the purposes of this
13 paragraph, "commercial airline" means a person holding a federal certificate
14 of public convenience and necessity or foreign air carrier permit for air
15 transportation to transport persons, property or United States mail in
16 intrastate, interstate or foreign commerce.

17 44. Alternative fuel vehicles if the vehicle was manufactured as a
18 diesel fuel vehicle and converted to operate on alternative fuel and
19 equipment that is installed in a conventional diesel fuel motor vehicle to
20 convert the vehicle to operate on an alternative fuel, as defined in section
21 1-215.

22 45. Gas diverted from a pipeline, by a person engaged in the business
23 of:

24 (a) Operating a natural or artificial gas pipeline, and used or
25 consumed for the sole purpose of fueling compressor equipment that
26 pressurizes the pipeline.

27 (b) CONVERTING NATURAL GAS INTO LIQUEFIED NATURAL GAS, AND USED OR
28 CONSUMED FOR THE SOLE PURPOSE OF FUELING COMPRESSOR EQUIPMENT USED IN THE
29 CONVERSION PROCESS.

30 46. Tangible personal property that is excluded, exempt or deductible
31 from transaction privilege tax pursuant to section 42-5063.

32 47. Tangible personal property purchased to be incorporated or
33 installed as part of environmental response or remediation activities under
34 section 42-5075, subsection B, paragraph 6.

35 48. Tangible personal property sold by a nonprofit organization that is
36 exempt from taxation under section 501(c)(6) of the internal revenue code if
37 the organization produces, organizes or promotes cultural or civic related
38 festivals or events and no part of the organization's net earnings inures to
39 the benefit of any private shareholder or individual.

40 B. In addition to the exemptions allowed by subsection A of this
41 section, the following categories of tangible personal property are also
42 exempt:

43 1. Machinery, or equipment, used directly in manufacturing,
44 processing, fabricating, job printing, refining or metallurgical operations.
45 The terms "manufacturing", "processing", "fabricating", "job printing",

1 "refining" and "metallurgical" as used in this paragraph refer to and include
2 those operations commonly understood within their ordinary meaning.
3 "Metallurgical operations" includes leaching, milling, precipitating,
4 smelting and refining.

5 2. Machinery, or equipment, used directly in the process of extracting
6 ores or minerals from the earth for commercial purposes, including equipment
7 required to prepare the materials for extraction and handling, loading or
8 transporting such extracted material to the surface. "Mining" includes
9 underground, surface and open pit operations for extracting ores and
10 minerals.

11 3. Tangible personal property sold to persons engaged in business
12 classified under the telecommunications classification under section 42-5064
13 and consisting of central office switching equipment, switchboards, private
14 branch exchange equipment, microwave radio equipment and carrier equipment
15 including optical fiber, coaxial cable and other transmission media which are
16 components of carrier systems.

17 4. Machinery, equipment or transmission lines used directly in
18 producing or transmitting electrical power, but not including distribution.
19 Transformers and control equipment used at transmission substation sites
20 constitute equipment used in producing or transmitting electrical power.

21 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
22 to be used as breeding or production stock, including sales of breedings or
23 ownership shares in such animals used for breeding or production.

24 6. Pipes or valves four inches in diameter or larger used to transport
25 oil, natural gas, artificial gas, water or coal slurry, including compressor
26 units, regulators, machinery and equipment, fittings, seals and any other
27 part that is used in operating the pipes or valves.

28 7. Aircraft, navigational and communication instruments and other
29 accessories and related equipment sold to:

30 (a) A person holding a federal certificate of public convenience and
31 necessity, a supplemental air carrier certificate under federal aviation
32 regulations (14 Code of Federal Regulations part 121) or a foreign air
33 carrier permit for air transportation for use as or in conjunction with or
34 becoming a part of aircraft to be used to transport persons, property or
35 United States mail in intrastate, interstate or foreign commerce.

36 (b) Any foreign government for use by such government outside of this
37 state, or sold to persons who are not residents of this state and who will
38 not use such property in this state other than in removing such property from
39 this state.

40 8. Machinery, tools, equipment and related supplies used or consumed
41 directly in repairing, remodeling or maintaining aircraft, aircraft engines
42 or aircraft component parts by or on behalf of a certificated or licensed
43 carrier of persons or property.

44 9. Rolling stock, rails, ties and signal control equipment used
45 directly to transport persons or property.

1 10. Machinery or equipment used directly to drill for oil or gas or
2 used directly in the process of extracting oil or gas from the earth for
3 commercial purposes.

4 11. Buses or other urban mass transit vehicles which are used directly
5 to transport persons or property for hire or pursuant to a governmentally
6 adopted and controlled urban mass transportation program and which are sold
7 to bus companies holding a federal certificate of convenience and necessity
8 or operated by any city, town or other governmental entity or by any person
9 contracting with such governmental entity as part of a governmentally adopted
10 and controlled program to provide urban mass transportation.

11 12. Groundwater measuring devices required under section 45-604.

12 13. New machinery and equipment consisting of tractors, tractor-drawn
13 implements, self-powered implements, machinery and equipment necessary for
14 extracting milk, and machinery and equipment necessary for cooling milk and
15 livestock, and drip irrigation lines not already exempt under paragraph 6 of
16 this subsection and that are used for commercial production of agricultural,
17 horticultural, viticultural and floricultural crops and products in this
18 state. For the purposes of this paragraph:

19 (a) "New machinery and equipment" means machinery or equipment which
20 has never been sold at retail except pursuant to leases or rentals which do
21 not total two years or more.

22 (b) "Self-powered implements" includes machinery and equipment that
23 are electric-powered.

24 14. Machinery or equipment used in research and development. For the
25 purposes of this paragraph, "research and development" means basic and
26 applied research in the sciences and engineering, and designing, developing
27 or testing prototypes, processes or new products, including research and
28 development of computer software that is embedded in or an integral part of
29 the prototype or new product or that is required for machinery or equipment
30 otherwise exempt under this section to function effectively. Research and
31 development do not include manufacturing quality control, routine consumer
32 product testing, market research, sales promotion, sales service, research in
33 social sciences or psychology, computer software research that is not
34 included in the definition of research and development, or other
35 nontechnological activities or technical services.

36 15. Machinery and equipment that are purchased by or on behalf of the
37 owners of a soundstage complex and primarily used for motion picture,
38 multimedia or interactive video production in the complex. This paragraph
39 applies only if the initial construction of the soundstage complex begins
40 after June 30, 1996 and before January 1, 2002 and the machinery and
41 equipment are purchased before the expiration of five years after the start
42 of initial construction. For the purposes of this paragraph:

43 (a) "Motion picture, multimedia or interactive video production"
44 includes products for theatrical and television release, educational
45 presentations, electronic retailing, documentaries, music videos, industrial

1 films, CD-ROM, video game production, commercial advertising and television
2 episode production and other genres that are introduced through developing
3 technology.

4 (b) "Soundstage complex" means a facility of multiple stages including
5 production offices, construction shops and related areas, prop and costume
6 shops, storage areas, parking for production vehicles and areas that are
7 leased to businesses that complement the production needs and orientation of
8 the overall facility.

9 16. Tangible personal property that is used by either of the following
10 to receive, store, convert, produce, generate, decode, encode, control or
11 transmit telecommunications information:

12 (a) Any direct broadcast satellite television or data transmission
13 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
14 100.

15 (b) Any satellite television or data transmission facility, if both of
16 the following conditions are met:

17 (i) Over two-thirds of the transmissions, measured in megabytes,
18 transmitted by the facility during the test period were transmitted to or on
19 behalf of one or more direct broadcast satellite television or data
20 transmission services that operate pursuant to 47 Code of Federal Regulations
21 parts 25 and 100.

22 (ii) Over two-thirds of the transmissions, measured in megabytes,
23 transmitted by or on behalf of those direct broadcast television or data
24 transmission services during the test period were transmitted by the facility
25 to or on behalf of those services.

26 For the purposes of subdivision (b) of this paragraph, "test period" means
27 the three hundred sixty-five day period beginning on the later of the date on
28 which the tangible personal property is purchased or the date on which the
29 direct broadcast satellite television or data transmission service first
30 transmits information to its customers.

31 17. Clean rooms that are used for manufacturing, processing,
32 fabrication or research and development, as defined in paragraph 14 of this
33 subsection, of semiconductor products. For the purposes of this paragraph,
34 "clean room" means all property that comprises or creates an environment
35 where humidity, temperature, particulate matter and contamination are
36 precisely controlled within specified parameters, without regard to whether
37 the property is actually contained within that environment or whether any of
38 the property is affixed to or incorporated into real property. Clean room:

39 (a) Includes the integrated systems, fixtures, piping, movable
40 partitions, lighting and all property that is necessary or adapted to reduce
41 contamination or to control airflow, temperature, humidity, chemical purity
42 or other environmental conditions or manufacturing tolerances, as well as the
43 production machinery and equipment operating in conjunction with the clean
44 room environment.

1 (b) Does not include the building or other permanent, nonremovable
2 component of the building that houses the clean room environment.

3 18. Machinery and equipment that are used directly in the feeding of
4 poultry, the environmental control of housing for poultry, the movement of
5 eggs within a production and packaging facility or the sorting or cooling of
6 eggs. This exemption does not apply to vehicles used for transporting eggs.

7 19. Machinery or equipment, including related structural components,
8 that is employed in connection with manufacturing, processing, fabricating,
9 job printing, refining, mining, natural gas pipelines, metallurgical
10 operations, telecommunications, producing or transmitting electricity or
11 research and development and that is used directly to meet or exceed rules or
12 regulations adopted by the federal energy regulatory commission, the United
13 States environmental protection agency, the United States nuclear regulatory
14 commission, the Arizona department of environmental quality or a political
15 subdivision of this state to prevent, monitor, control or reduce land, water
16 or air pollution.

17 20. Machinery and equipment that are used in the commercial production
18 of livestock, livestock products or agricultural, horticultural, viticultural
19 or floricultural crops or products in this state and that are used directly
20 and primarily to prevent, monitor, control or reduce air, water or land
21 pollution.

22 21. Machinery or equipment that enables a television station to
23 originate and broadcast or to receive and broadcast digital television
24 signals and that was purchased to facilitate compliance with the
25 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
26 Code section 336) and the federal communications commission order issued
27 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
28 not exempt any of the following:

29 (a) Repair or replacement parts purchased for the machinery or
30 equipment described in this paragraph.

31 (b) Machinery or equipment purchased to replace machinery or equipment
32 for which an exemption was previously claimed and taken under this paragraph.

33 (c) Any machinery or equipment purchased after the television station
34 has ceased analog broadcasting, or purchased after November 1, 2009,
35 whichever occurs first.

36 22. Qualifying equipment that is purchased from and after June 30, 2004
37 through June 30, 2014 by a qualified business under section 41-1516 for
38 harvesting or the initial processing of qualifying forest products removed
39 from qualifying projects as defined in section 41-1516. To qualify for this
40 exemption, the qualified business must obtain and present its certification
41 from the department of commerce at the time of purchase.

42 23. Machinery, equipment and other tangible personal property used
43 directly in motion picture production by a motion picture production company.
44 To qualify for this ~~deduction~~ EXEMPTION, at the time of purchase, the motion
45 picture production company must present to the retailer its certificate that

1 is issued pursuant to section 42-5009, subsection H and that establishes its
2 qualification for the ~~deduction~~ EXEMPTION.

3 C. The exemptions provided by subsection B of this section do not
4 include:

5 1. Expendable materials. For the purposes of this paragraph,
6 expendable materials do not include any of the categories of tangible
7 personal property specified in subsection B of this section regardless of the
8 cost or useful life of that property.

9 2. Janitorial equipment and hand tools.

10 3. Office equipment, furniture and supplies.

11 4. Tangible personal property used in selling or distributing
12 activities, other than the telecommunications transmissions described in
13 subsection B, paragraph 16 of this section.

14 5. Motor vehicles required to be licensed by this state, except buses
15 or other urban mass transit vehicles specifically exempted pursuant to
16 subsection B, paragraph 11 of this section, without regard to the use of such
17 motor vehicles.

18 6. Shops, buildings, docks, depots and all other materials of whatever
19 kind or character not specifically included as exempt.

20 7. Motors and pumps used in drip irrigation systems.

21 D. The following shall be deducted in computing the purchase price of
22 electricity by a retail electric customer from a utility business:

23 1. Revenues received from sales of ancillary services, electric
24 distribution services, electric generation services, electric transmission
25 services and other services related to providing electricity to a retail
26 electric customer who is located outside this state for use outside this
27 state if the electricity is delivered to a point of sale outside this state.

28 2. Revenues received from providing electricity, including ancillary
29 services, electric distribution services, electric generation services,
30 electric transmission services and other services related to providing
31 electricity with respect to which the transaction privilege tax imposed under
32 section 42-5063 has been paid.

33 E. The tax levied by this article does not apply to:

34 1. The storage, use or consumption in Arizona of machinery, equipment,
35 materials or other tangible personal property if used directly and
36 predominantly to construct a qualified environmental technology
37 manufacturing, producing or processing facility, as described in section
38 41-1514.02. This paragraph applies for ten full consecutive calendar or
39 fiscal years after the start of initial construction.

40 2. The purchase of electricity by a qualified environmental technology
41 manufacturer, producer or processor as defined in section 41-1514.02 that is
42 used directly in environmental technology manufacturing, producing or
43 processing. This paragraph shall apply for fifteen full consecutive calendar
44 or fiscal years from the date the first paper manufacturing machine is placed
45 in service. In the case of an environmental technology manufacturer,

1 producer or processor who does not manufacture paper, the time period shall
2 begin with the date the first manufacturing, processing or production
3 equipment is placed in service.

4 F. The following shall be deducted in computing the purchase price of
5 electricity by a retail electric customer from a utility business:

6 1. Fees charged by a municipally owned utility to persons constructing
7 residential, commercial or industrial developments or connecting residential,
8 commercial or industrial developments to a municipal utility system or
9 systems if the fees are segregated and used only for capital expansion,
10 system enlargement or debt service of the utility system or systems.

11 2. Reimbursement or contribution compensation to any person or persons
12 owning a utility system for property and equipment installed to provide
13 utility access to, on or across the land of an actual utility consumer if the
14 property and equipment become the property of the utility. This deduction
15 shall not exceed the value of such property and equipment.

16 G. For the purposes of subsection B of this section:

17 1. "Aircraft" includes:

18 (a) An airplane flight simulator that is approved by the federal
19 aviation administration for use as a phase II or higher flight simulator
20 under appendix H, 14 Code of Federal Regulations part 121.

21 (b) Tangible personal property that is permanently affixed or attached
22 as a component part of an aircraft that is owned or operated by a
23 certificated or licensed carrier of persons or property.

24 2. "Other accessories and related equipment" includes aircraft
25 accessories and equipment such as ground service equipment that physically
26 contact aircraft at some point during the overall carrier operation.

27 H. For the purposes of subsection D of this section, "ancillary
28 services", "electric distribution service", "electric generation service",
29 "electric transmission service" and "other services" have the same meanings
30 prescribed in section 42-5063.

31 Sec. 3. Retroactivity: refunds

32 A. Section 42-5061, subsection R and section 42-5159, subsection A,
33 paragraph 45, Arizona Revised Statutes, as amended by this act, apply
34 retroactively to taxable periods beginning from and after July 31, 2005.

35 B. Any claim for refund of transaction privilege tax or use tax based
36 on the retroactive application of section 42-5061, subsection R and section
37 42-5159, subsection A, paragraph 45, Arizona Revised Statutes, as amended by
38 this act, shall be submitted to the department of revenue on or before
39 December 31, 2006, pursuant to section 42-1118, Arizona Revised Statutes. A
40 failure to file a claim on or before December 31, 2006 constitutes a waiver
41 of the claim for refund under this section.